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TAGS: PREL PGOV ETRD RU BU

SUBJECT: MOSCOW TIGHTENS SCREWS AS BULGARIA PREPARES FOR EU  
MEMBERSHIP

Classified By: CDA Alex Karagiannis for reasons 1.4 (b) and (c)

¶1. (C) SUMMARY: During his first official visit to Moscow, Foreign Minister Kalfin discussed several unresolved bilateral issues, including arm sales to Georgia, the production and sale of weapons under outdated Soviet licenses, and efforts to trim Bulgaria's ballooning trade deficit with Russia. Apart from refocusing the Bulgarian-Russian relationship now that Bulgaria is joining the EU in 2007, one of Kalfin's goals was to lay the groundwork for a future visit by Prime Minister Stanishev. Our Foreign Ministry contacts characterize the visit as "positive" and non-confrontational while the press has portrayed it as "chilly" and contentious. Foreign Minister Kalfin told the Ambassador that the Russians were heavy-handed. END SUMMARY.

BULGARIA NOT BENDING ON ARMS SALES (FOR NOW)

¶2. (U) During his December 6-8 trip to Moscow, Kalfin met with Russian Foreign Minister Lavrov, the co-chair of the Bulgarian-Russian Inter-governmental Committee, Sergey Narishkin, Moscow's Mayor Yuri Luzhkov, and business representatives from the energy sector. Kalfin also traveled to the Russian republic of Tatarstan and met its president Minitimer Shaymiev.

¶3. (C) XXXXXXXXXXXXXXX described the visit to us on December 15 as "positive" and mainly focused on economic issues. XXXXXXXXXXXXXXX admitted Bulgaria's sale of arms to Georgia was discussed in the broader context of arms licenses, but suggested the GOB has no plans to stop these sales. "Russia knows our position" on the issue, XXXXXXXXXXXXXXX said, and "does not like it." He emphasized that these sales are closely "controlled" by the GOB and directed only to the Georgian government. Russian officials, however, continue to voice concerns that the arms will be used to settle the region's conflict "militarily" and fear the Georgian government is transferring the weapons to other rousps.

¶4. (C) XXXXXXXXXXXXXXX told us the two countries till remain very much divided over the Bulgarian roduction and sale of weapons under old Soviet licenses, specifically Kalishnikov automatic rifle. Moscow regards Bulgarian-produced Kalishnikov as "counterfeit" and believes Bulgarian produces should be paying part of their profits to the Rssin producer, Rosoboronexport. Russia further carges that Bulgaria is selling its military hardare at "dumping" prices and crowding out Russiancompetition. XXXXXXXXXXXXXXX indicated that no progress o the issue was made during the visit and that significant "differences still exist" between the contries. He said, "the Russians, of course, want t settle

the issue their way," but that the two sides agreed to leave the topic to the experts for now. According to XXXXXXXXXXXXXXXX, Bulgarian arms producers would be forced out of business if they had to yield part of their profits to Russia.

#### MEAT IS MURDER (ON BILATERAL RELATIONS)

¶ 15. (C) Despite its focus in the press, XXXXXXXXXXXXXXX said the topic of Bulgarian meat exports--and Moscow's concerns over Bulgaria's veterinary standards--was not discussed during the visit. According to XXXXXXXXXXXXXXX, Lavrov mentioned the issue for the first time during the press conference following his meeting with Kalfin. XXXXXXXXXXXXXXX said Russia views this simply as a "technical" issue. Bulgarian leaders undoubtedly were stung by Russia's threat to ban all animal products from the EU based on concerns over poor hygiene and animal health in Bulgaria and Romania. Kalfin, before his visit, called Moscow's fears "ungrounded"--a sentiment echoed by EU Enlargement Commissioner Ollie Rehn. Lavrov has subsequently characterized the dispute as a "misunderstanding" and says Russia is merely adhering to EU veterinary standards rather than punishing Bulgaria or Romania.

¶ 16. (C) Interestingly, XXXXXXXXXXXXXXX noted that a ban on Bulgarian meat exports by Russia would have an insignificant economic impact on Bulgaria since Russia imports only a small amount (around 50 tons this year) of Bulgarian meat. Concerning EU accession, XXXXXXXXXXXXXXX said Russian officials expressed no dissatisfaction whatsoever with Bulgaria's imminent EU membership or its likely effects. Bulgaria's new status will require the two countries to renegotiate a number of trade and economic agreements however.

#### ENERGY ISSUES

¶ 17. (C) The two sides also discussed energy, according to XXXXXXXXXXXXXXX. Differences reportedly still exist over the Burgas-Alexandropolis (B-A) pipeline, but XXXXXXXXXXXXXXX did not elaborate. Experts met in Moscow last week on the issue and are planning to meet again soon. We hear from other sources that the GOB is preparing its response to the Russian-drafted Inter-governmental Agreement for B-A. Bulgaria is also renegotiating a gas contract with Gazprom, which is reported to guarantee that Gazprom will supply the core of Bulgaria's gas until 2030. XXXXXXXXXXXXXXX noted that Russian officials still see Bulgaria as a good transit location for energy, particularly to places such as Macedonia and Serbia.

¶ 18. (SBU) Kalfin in a press interview during the visit said Bulgaria supported Brussels efforts to develop a common energy policy. He further emphasized that "it would be better for our economy" to develop alternatives sources of energy to end Bulgaria's dependency on Russia, but that Bulgaria will continue its cooperation with Russia "for securing our market and for transit of energy resources."

#### CLOSING THE GAP ON BULGARIA'S TRADE DEFICIT WITH RUSSIA

¶ 19. (C) A major priority for Sofia is to reduce its negative trade balance with Russia, which reached roughly 3 billion USD this year (mainly from energy imports). One initiative to help close the gap, which was discussed during the visit, is the establishment of a "direct transit link" between Russia and Bulgaria. Commerce between the two countries currently goes by rail via Romania, Moldova and Ukraine or by boat across the Black Sea. XXXXXXXXXXXXXXX told us these routes are fraught with delays and problems, particularly linked to Ukraine. The GOB believes that bilateral trade would be enhanced by initiating new infrastructure projects that would better connect the two countries. One area the two sides are investigating is the better utilization of the Black Sea and the river system for increased trade. According to XXXXXXXXXXXXXXX, Russia supports the idea of creating new infrastructure but worries that there still will not be enough goods to trade, even with the new infrastructure. The one Bulgarian export to Russia that has been expanding is wine, noted XXXXXXXXXXXXXXX, but that is hardly making a dent in the massive deficit.

RUSSIA WANTS RESULTS BEFORE ANY VISIT BY THE PM

¶10. (C) Asked about Prime Minister Stanishev's possible visit to Russia, XXXXXXXXXXXX said Moscow is insisting that any future visit be "results-oriented" and would first like to see progress on the outstanding issues between the two countries before giving the green light to any future visit. XXXXXXXXXXXX said the trip certainly would not happen until the expert-led Russian-Bulgarian Inter-government Committee meets again sometime early next year. But the hope is that it could take place sometime in the first half of 2007. When asked the same question about a possible trip by Stanishev by the press, Kalfin said it would take place as soon "as there were enough topics to discuss with the Russian side."

¶11. (C) COMMENT: Kalfin's stratchy meetings and Russian brusqueness colored his visit there. Other than the complex and layered energy relationship, and Russia's ham-fisted attempts to leverage influence, several additional issues currently divide Sofia and Moscow. It is not only on arms sales and meat that the two countries do not see eye-to-eye, but also on the establishment of U.S.-Bulgaria joint training facilities in Bulgaria and the GOB's acceptance of Kosovo's eventual independence. This suggests that the fears of some that Bulgaria will act as Russia's "Trojan horse" in the EU are overblown. Bulgaria's public opinion is more positive to Moscow than other newer members such Poland or Romania, but the two countries are also moving in different directions with Bulgaria becoming more firmly anchored now in the West. XXXXXXXXXXXX said in the future Bulgaria intends to deal with Russia largely in the framework of the EU, suggesting Sofia may follow Brussels' cue on many questions concerning Moscow. We, of course, will work so Sofia follows the U.S. lead. END  
COMMENT  
KARAGIANNIS